

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Sanilac District Library	County Sanilac
Audit Date 12/31/04	Opinion Date 6/29/05	Date Accountant Report Submitted to State: 8/10/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

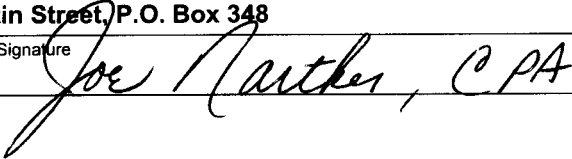
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Brining & Nartker, P.C.			
Street Address 47 Austin Street, P.O. Box 348	City Sandusky	State MI	ZIP 48471
Accountant Signature 		Date 8/10/05	

**SANILAC DISTRICT LIBRARY
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BRINING & NARTKER, P.C.

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Sanilac District Library
Port Sanilac, Michigan

Members of the Board:

We have audited the accompanying basic financial statements of Sanilac District Library, Port Sanilac, Michigan, as of and for the year ended December 31, 2004, as listed in the table of contents. These basic financial statements are the responsibility of Sanilac District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Sanilac District Library, Port Sanilac, Michigan, as of December 31, 2004, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of January 1, 2004.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Brining & Nartker, P.C.

BRINING & NARTKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

June 29, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Sanilac District Library's annual financial report presents our discussion and analysis of the Library's financial performance during the year ended December 31, 2004. Please read it in conjunction with the Library's financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader may understand the Library financially as a whole. The Government-Wide Financial Statements provide information about the activities of the whole Library, presenting both an aggregate view of the Library's finances and a longer-term view. The Fund Financial Statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The Fund Financial Statements look at the Library's operations in more detail than the Government-wide Financial Statements by providing information about the Library's most significant fund – The General Fund. The General Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period.

This annual report consists of three parts: Management's Discussion and Analysis, the basic financial statements, and required supplementary information. The basic financial statements include information that presents two different views of the Library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These Fund Financial Statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method of accounting.
- The third column presents the Library's operations on a full accrual basis which provides both long and short-term information about the Library's overall financial status.

The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library on a longer-term view of the Library's finances.

The financial statements also include notes that explain some of the information and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information.

Reporting the Library as a Whole – Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities, which appear first in the Library's financial statements, report information about the Library as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The Statement of Net Assets included all of the Library's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

These two statements report the Library's net assets and how they have changed. Net assets, the difference between assets and liabilities, as reported in the statement of net assets, is one way to measure the Library's financial health or position. Over time, increases or decreases in the Library's net assets, as reported in the Statement of Activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Library's operating results. However, the library's goal is to provide services to our patrons, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the services provided to assess the overall health of the Library.

The Statement of Net Assets and Statement of Activities report the governmental activities for the Library, which encompass all of the Library's services. Property taxes, penal fines and unrestricted State aid finance most of these activities.

Table 1 provides a summary of the Library's net assets as of December 31, 2004. This Analysis is a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34). Since this is the first year the Library has presented government-wide financial statements, comparisons to the prior year have not been presented. In future years comparative data will be available. The following table shows key financial information in a condensed format.

Condensed Financial Information
TABLE 1

	December 31, 2004
ASSETS	
Current assets	\$ 159,152
Capital assets	296,924
Total Assets	<u>456,076</u>
LIABILITIES	
Due to Sanilac County	<u>21,493</u>
Total Liabilities	<u>21,493</u>
NET ASSETS	
Investment in general capital assets	296,924
Unrestricted	128,326
Restricted	9,333
Total Net Assets	<u><u>\$ 434,583</u></u>

The results of 2004 operations for the Library as a whole are reported in Table 2 - Statement of Activities, which shows the sources of revenue.

TABLE 2

	For Year Ended December 31, 2004
Program Revenues:	
Charges for services	\$ 8,880
Operating grants and contributions	<u>15,237</u>
Total Program Revenues	<u>24,117</u>
Program Expenses	<u>(167,762)</u>
Net Program Expense	<u>(143,645)</u>
General Revenues:	
Taxes:	
County	30,574
District	80,534
State aid	3,966
Penal fines	18,609
Investment earnings	706
Other:	
Miscellaneous	561
USF rebates	5,607
Insurance claim	<u>1,497</u>
Total General Revenues	<u>142,054</u>
Change in Net Assets	<u><u>\$ (1,591)</u></u>

(Continued)

- Sanilac District Library is reporting financial statements this year that meet the requirements of GASB Number 34. The primary change requires reporting all assets at full cost less depreciation expense.
- As a result of this change, the Library reports net assets of \$434,583 this year on a full accrual basis, as compared to fund balances of \$42,670 on the modified accrual basis of accounting.
- The Library's primary source of revenue is from property taxes. For 2004, total tax collections were \$106,179. This represents approximately 68 percent of total revenue.
- Salaries and fringe benefits are the largest overall expenditure of the Library. For 2004, this expenditure was \$82,628, representing 54 percent of the Library's total expenditures.
- Library materials representing 18 percent of the Library's total expenditures cost \$28,049 in 2004..
- The Library expended \$10,960 for capital assets which included computer hardware, equipment and furniture.
- Total expenditures for the entire year under the modified accrual method of accounting were \$153,424.

Reporting the Library's Funds – Fund Financial Statements

The Library's fund financial statements provide detailed information about the Library funds, not the Library as a whole. Some funds are required to be established by State law. The Library establishes funds to help control and manage money for particular purposes and to show that it is meeting its legal responsibilities for using certain taxes, grants and other income. The Library uses the following accounting approach: Governmental fund reporting focuses on showing how money follows into and out of funds and balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Library and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that may be spent in the near future to finance the Library's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

Analysis of the Library's General Fund is included on page nine in the first column of the respective statements. The fund column provides detailed information about the General Fund, not the library as a whole. The Library Board has the authority to create separate funds to help manage money for specific purposes and to maintain accountability for certain activities such as property tax millages. The Library's major fund consists solely of the General Fund.

The fund balance of the General Fund was \$42,670 for the year. This represents unspent revenue greater than expenses.

Library Budgetary Highlights

Sanilac District Library's budget is prepared according to Michigan Law. Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year.

Revenues:

- The original budgeted amount for Income was \$141,740. Revenues of \$161,242 were actually received. The final budget amendment was \$183,500.
- The Library applied for and was awarded two grants totaling \$9,540. The Library received \$2,640 from the Reed Act/Gates Foundation Grant for Broadband Internet Access. The Library also was awarded an SBC Excelsior Grant of \$6,900 to provide Broadband and Wireless Internet Access. Revenue from both grants will be expended in the 2004 and 2005 fiscal years. The budget was amended to account for this income.
- The budget was amended to account for projected movie rental income.
- The Library received Universal Service Fund rebates which were used to offset 70% of communications expenses and Internal connectivity.
- The library continues to be dependent upon Penal Fine revenues. Penal Fines continue to be unstable sources of revenue impacted by many factors including economic effects on tourism, decisions on judgments by the courts, the number of police assigned to road patrols and legislative action take to designate and/or redefine penal fines to other fees.
- State Aid, while it is written into Michigan law to give libraries \$1 per capita, is budgeted to be only \$0.87 per capita. State Aid enables the Library to continue membership in the White Pine Library Cooperative. Half of the State Aid revenue is the required fee for membership dues. Membership in the Cooperative provides Statewide delivery, interlibrary loan, continuing education and discounts to various vendors for library equipment, materials and supplies. The Library must meet State Aid Guidelines in order to qualify for State Aid.
- The library will continue to seek grant funding and donations for various projects.

Expenditures:

- The original budget for Expenses was \$150,000. Actual expenses were \$153,424. The final amended budget was \$160,000, which included projected prorated expenditures.
- The uncertainty of the outcome of the County Library Millage question caused a temporary freeze in ordering new books. As a result, the original budgeted amount was amended and approximately \$2,600 of the book budget was not expended.
- After the building expansion and renovation project was completed in 2001, the Library Board approved a Long Term Maintenance Plan to set aside a total of \$35,000 by 2017 for the repair and/or replacement of the air conditioner, carpet, furnace, parking lot and roof. The library purchases a \$2,000 Certificate of Deposit annually. The balance of the combined CDs at the end of the year was \$9,333.
- A power outage caused extreme damage to the Library's main server. Insurance provided full replacement. Partial payment was received in 2004 and the remaining portion was received in 2005.

Library Budgetary Highlights

- Universal Service Funds provided 70% of the cost of a computer server to control Internet traffic which allows access to the Library's catalog by patrons over the Internet and houses the Library's website.
- Capital outlay was increased to purchase three book stacks to hold the science fiction, western and young adult collections. Also, two computers were purchased to replace outdated models at the Circulation Desk per the Library's Technology Plan.
- Funds budgeted for Continuing Education were not used as free classes were available.
- Technology expenses to implement the Reed/Gates and SBC Excelsior Grants were deferred to 2005 due to the delay in installation and implementation of the T1 Internet access and wireless equipment.
- The Library's net assets were \$434,583 as of December 31, 2004.
- The Library ended its fiscal year with a remaining fund balance of \$42,670.

Budget Notes for the Next Fiscal Year

- The 2005 Budget was determined by the previous year's revenue receipts and actual expenses.
- Sanilac County overpaid the 2003 delinquent property taxes by \$21,493. The Library has made arrangements with the Sanilac County Treasurer to repay this amount over a period of four years.

Capital Assets

At the end of the 2004 year, the Library had invested \$10,960 in capital outlay of computers, furniture and equipment.

The Library had a total of \$296,924 invested in capital assets, including art, the building, computers, equipment, furniture, library materials and land. As a result of GASB 34 implementation, the library adopted a capitalization policy of \$500.

<u>Capital Assets Summary</u>	<u>December 31,</u> <u>2004</u>
Assets not being depreciated: Art & Land	\$ 23,200
Building & building improvements	262,535
Furniture & Equipment	134,132
Library materials	2,049
Totals at Historical Cost	<u>421,916</u>
Less: Accumulated Depreciation	<u>(124,992)</u>
Capital Assets - Net	<u><u>\$ 296,924</u></u>

Debt Administration

Long-term liabilities consisted of a payable due to Sanilac County representing an overpayment on the 2003 delinquent property taxes. See note 6 for further details

Scheduled maturities of the long-term liabilities at December 31, 2004, are as follows:

<u>Year Ending</u>	<u>Amount</u>
December 31, 2005	\$ 5,373
December 31, 2006	5,373
December 31, 2007	5,373
December 31, 2008	5,374
Total Scheduled Maturities	<u><u>\$ 21,493</u></u>

Millage Rates

- In August 2004, the voters of Sanilac County approved a four year county wide millage renewal of .2 mills to be distributed to the eight libraries in Sanilac County.
- A District Library Millage is levied to residents of the Carsonville – Port Sanilac School District and Sanilac Township to support the operating budget. The original millage rate of 0.625 was authorized by election on June 14, 1999. The difference between the authorized and levied rate is due to the Headlee Override. This millage expires on December 31, 2008.
- The 2003 Tax Rate Request was 0.5961 mills. The Millage Reduction Fraction was 0.8969. These funds were collected in 2004. The taxable value of the library district increased enough to prevent significant loss of revenue.
- The 2004 Tax Rate Request was 0.5887 mills. The Millage Reduction Fraction was 0.9877. These funds are distributed in 2005.

Contacting The District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the Library's finances. If you have questions about this report or need additional information, contact the Library Director at Sanilac District Library, 7130 Main Street, P.O. Box 525, Port Sanilac, MI 48469.

BASIC FINANCIAL STATEMENTS

**SANILAC DISTRICT LIBRARY
BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

	General Fund, Modified Accrual Basis	Adjustments (Note 2)	Statement of Net Assets- Full Accrual
ASSETS			
Cash and cash equivalents (Note 1 and 4)	\$ 43,978	\$ -	\$ 43,978
Investments (Note 1 and 4)	4,065	-	4,065
Receivables - taxes	-	111,109	111,109
Capital assets, net (Note 5)	-	296,924	296,924
Total Assets	<u>\$ 48,043</u>	<u>\$ 408,033</u>	<u>456,076</u>
LIABILITIES			
Long-term liabilities: (Note 6)			
Due within one year	\$ 5,373	\$ -	5,373
Due in more than one year	-	16,120	16,120
Total Liabilities	<u>5,373</u>	<u>16,120</u>	<u>21,493</u>
FUND BALANCE/NET ASSETS			
Fund balance:			
Undesignated	33,337	(33,337)	-
Restricted for long-term maintenance	9,333	(9,333)	-
Total Fund Balances	<u>42,670</u>	<u>(42,670)</u>	<u>NONE</u>
Total Liabilities and Fund Balances	<u>\$ 48,043</u>	<u>\$ (26,550)</u>	<u>21,493</u>
Net Assets:			
Invested in capital assets - Net of debt		\$ 296,924	296,924
Unrestricted		128,326	128,326
Restricted		9,333	9,333
Total Net Assets		<u>\$ 434,583</u>	<u>\$ 434,583</u>

The accompanying notes to financial statements are an integral part of this statement.

**SANILAC DISTRICT LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in</u> <u>Net Assets</u>
		<u>Charges</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental activities:				
Recreation and cultural	<u>\$ 167,762</u>	<u>\$ 8,880</u>	<u>\$ 15,237</u>	<u>\$ (143,645)</u>
General Revenues:				
Taxes:				
County				30,574
District				80,534
State aid				3,966
Penal fines				18,609
Investment earnings				706
Other:				
Miscellaneous				561
USF rebates				5,607
Insurance claim				1,497
Total general revenues				<u>142,054</u>
Change in net assets				(1,591)
Net assets - beginning of year (Note 2)				436,174
Net assets - end of year				<u>\$ 434,583</u>

The accompanying notes to financial statements are an integral part of this statement.

**SANILAC DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

REVENUES:

Taxes	
County	\$ 28,284
District	77,895
State aid	3,966
Penal fines	18,609
Charges for services	8,880
Interest	706
Donations	5,697
Miscellaneous	561
Grants	9,540
USF rebates	5,607
Insurance claim	1,497

TOTAL REVENUES

161,242

EXPENDITURES:

Recreation and culture:	
Audio visual materials	5,875
Books	20,397
Building maintenance	1,921
Capital outlay	11,945
Communications	2,752
Contractual services	3,660
Dues	2,135
Insurance	3,528
Insurance - W/C	357
Landscaping	134
Library supplies	2,259
Magazines	1,777
Miscellaneous	290
Office supplies	1,797
Printing	173
Professional fees - Audit	1,650

(Continued)

**SANILAC DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

EXPENDITURES: (Continued)

Programs	\$ 1,690
Technology	3,491
Transportation	234
Utilities	4,731
Wages and payroll taxes	82,628
TOTAL EXPENDITURES	<u>153,424</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>7,818</u>
FUND BALANCE - BEGINNING OF YEAR	18,731
FUND BALANCE - END OF YEAR	<u><u>\$ 26,549</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity

The Sanilac District Library is located on the east edge of Sanilac County, Michigan at 7130 Main Street, Port Sanilac, Michigan. Carsonville-Port Sanilac Schools in conjunction with Sanilac Township entered into an agreement to create the Sanilac District Library. The District Library is a legally separate organization established to provide library services to residents of the Carsonville-Port Sanilac School district and Sanilac Township residents. Effective February 25, 1998, the Sanilac District Library was recognized by the Library of Michigan as a legally established district library pursuant to the District Library Establishment Act, 1989 PA 24.

The district consists of the entire geographic area of Sanilac Township as well as the entire geographic boundaries of the Carsonville-Port Sanilac School district. It is governed by a seven (7) member board. The Board is empowered to propose and levy upon approval of the electors a tax for support of the District Library. It may also borrow money and issue bonds pursuant to the District Library Financing Act 265 of 1988. The District Library indemnifies and holds harmless the participating municipalities from all claims and liabilities. The County does levy a tax for the District Library; however, the County does not hold title to any of the District Library's assets, nor does it have rights to any surpluses or responsibility to finance any deficits of the District Library. The district has a calendar year end of December 31st.

The accounting policies of Sanilac District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Sanilac District Library.

B. Basis of Presentation

The Library's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Library as a whole. These statements include the financial activities of the primary government.

(Continued)

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

**NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES: (Continued)**

B. Basis of Presentation (Continued)

Government-Wide Financial Statements (Continued)

The statement of net assets presents the financial condition of the governmental activities of the Library at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Library's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Library, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Library.

C. Fund Accounting

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The statements distinguish between those activities of the Library that are governmental and those that are considered business-type activities. The Library does not currently have any business-type activities.

Governmental Fund

Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the governmental fund according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

(Continued)

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

**D. Measurement Focus
Government-Wide Financial Statements**

The government-wide financial statements are prepared using the economic resources measurement focus.

All assets and all liabilities associated with the operation of the Library are included on the statement of net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Library, available means expected to be received within sixty days after year end.

(Continued)

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

**NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES: (Continued)**

E. Basis of Accounting (Continued)

Nonexchange transactions, in which the Library receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Library must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Library on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the Library's revenue sources are considered both measurable and available at year end.

Expenses/Expenditures:

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, is not recognized in governmental funds.

F. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(Continued)

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

G. Budgets and Budgetary Accounting

The Library normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Library director submits to the Board a proposed operating budget which includes proposed expenditures and the means of financing them.

2. A public hearing is conducted to obtain comments.

3. Prior to January 1, the budget is legally enacted through board approval.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Library Board.

Budgets shown in the financial statements are adopted on a basis consistent with GAAP, and consist only of those amounts contained in the formal budget approved and amended by the Library Board.

H. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Library are considered to be cash equivalents.

I. Investments

Investments with an initial maturity of more than three months are reported as investments.

J. Capital Assets

General capital assets are those assets that result from expenditures in the governmental fund. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

(Continued)

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

J. Capital Assets (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$500 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives.

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Computers & software	5 years
Equipment	5 years
Furniture	7 years
Land Improvements	15 years
Library Materials	5 years
Building	50 years

The Library has a collection of art work and historical memorabilia presented for public exhibition and education that is being preserved for future generations. The collection is not capitalized or depreciated as part of capital assets.

K. Property Taxes:

Properties are assessed as of December 31, and the related property taxes become a lien on December 1st of the following year. These taxes are due on February 15, with the final collection date of February 28, before they are added to the County tax rolls.

The delinquent real property taxes of the District Library are purchased by the County of Sanilac. The County sells tax notes, the proceeds of which are used to pay the District Library for these property taxes. Under the modified accrual basis, the Library's tax revenues are recognized in the year following the December 1st levy date. Under the full accrual basis, the Library's tax revenues are recognized in the year the property taxes are levied.

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

K. Property Taxes: (Continued)

The 2004 taxable value of the Library's district is \$ 141,449,824. The mills levied per \$1,000 of taxable value are as follows:

Library-general operating	<u>.5887</u>
Total	<u>.5887</u>

On June 14, 1999, the District's constituents passed an operating millage for a period not to exceed 10 years in order to provide operating funds.

NOTE 2 – PRIOR PERIOD ADJUSTMENT/CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY:

For 2004, the Library has implemented Governmental Accounting Standards Board (GASB) Statement No. 33 "Accounting and Financing Reporting for Non-Exchange Transactions," as amended by Statement No. 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; No. 34, "Basic Financial Statement-and Management's Discussion and Analysis-for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 created new basic financial statements for reporting on the Library's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting. The government-wide financial statements split the Library's programs between governmental activities and business type activities. The Library does not currently have any business-type activities.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

(Continued)

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

**NOTE 2 – PRIOR PERIOD ADJUSTMENT/CHANGE IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF PRIOR YEAR FUND EQUITY: (Continued)**

As a result of implementing these pronouncements for the year ended December 31, 2004 the following restatements were made to beginning fund balance (as restated) to net assets of the government-wide financial statements.

Fund Balance - January 1, 2004 (restated)	\$ 18,731
Capital assets - net	311,262
Property tax receivable	106,181
Net Assets - January 1, 2004	<u>\$ 436,174</u>

**NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS:**

The General Fund's fund balance and the net change in fund balance differ from net assets and change in net assets reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the economic focus of the statement of the General Fund balance sheet and statement of revenue, expenditures, and changes in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 42,670
Amounts reported for governmental activities in the statement of net assets are different because:	
Property taxes receivable	111,109
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental fund. Capital assets at year end consist of:	
Capital asset cost	\$ 421,916
Capital asset accumulated depreciation	<u>(124,992)</u>
	296,924
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental fund. Long-term liabilities at year end consist of:	
Due to Sanilac County	<u>(16,120)</u>
Total Net Assets - Full Accrual Basis	<u>\$ 434,583</u>

(Continued)

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS: (Continued)

Net Change in Fund Balances - Modified Accrual Basis	\$ 7,818
Total change in net assets reported for governmental activities in the statement of activities is difference because:	
The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Current year depreciation expense	\$ (25,298)
Capital outlays reported in the governmental fund	<u>10,960</u>
Net differences	(14,338)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Property taxes	4,929
Change in Net Assets of Governmental Activities - Full Accrual Basis	<u><u>\$ (1,591)</u></u>

NOTE 4 - DEPOSITS AND INVESTMENTS:

Deposits - Michigan Public Acts authorize the units of local government in Michigan to deposit in the accounts of federally insured banks, insured credit unions, and savings and loan associations. Deposits of the Sanilac District Library are at federally insured banks located in the State of Michigan.

Investments - As authorized by the District Library board's investment policy, the Library is limited to investments authorized by PA 20 of 1943, as amended, and may invest in certificate of deposits and savings accounts.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indentures, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws do not allow collateralization of governmental deposits.

(Continued)

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 4 - DEPOSITS AND INVESTMENTS: (Continued)

The District Library's deposits are in accordance with statutory authority. The balance sheet caption "Cash and cash equivalents" included imprest cash of \$30.

The GASB Statement No. 3 risk disclosure for the General Fund is as follows:

Nonrisk Categorized

DESCRIPTION

**GENERAL
UNRESTRICTED
ASSETS**

Petty Cash	\$ 30
Checking Account	1,107
Money Market Account	37,573
Certificate of Deposits	<u>9,333</u>
Total	<u>\$ 48,043</u>

At year-end, the carrying amount of the Library's deposits was \$48,013 and the bank balance was \$56,644. All funds were covered by federal depository insurance.

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 5 – CAPITAL ASSETS:

Capital asset activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
<u>Primary Government</u>				
Capital Assets Not Being Depreciated				
Land	\$ 20,500	\$ -	\$ -	\$ 20,500
Art	2,700	-	-	2,700
Total Capital Assets Not Being Depreciated	<u>23,200</u>	<u>None</u>	<u>None</u>	<u>23,200</u>
Capital Assets Being Depreciated				
Computers & software	36,982	9,235	-	46,217
Equipment	23,937	-	-	23,937
Furniture	62,253	1,725	-	63,978
Land Improvements	6,880	-	-	6,880
Library Materials	2,049	-	-	2,049
Building	255,655	-	-	255,655
Total Capital Assets Being Depreciated	<u>387,756</u>	<u>10,960</u>	<u>None</u>	<u>398,716</u>
Less Accumulated Depreciation for:				
Computers & Software	19,371	6,884	-	26,255
Equipment	15,858	4,786	-	20,644
Furniture	25,895	7,887	-	33,782
Land Improvements	688	459	-	1,147
Library Materials	1,880	169	-	2,049
Building	36,002	5,113	-	41,115
Total For Accumulated Depreciation	<u>99,694</u>	<u>25,298</u>	<u>None</u>	<u>124,992</u>
Net Capital Assets Being Depreciated	<u>288,062</u>	<u>(14,338)</u>	<u>None</u>	<u>273,724</u>
Governmental Activities Total Capital Assets - Net of Depreciation	<u>\$ 311,262</u>	<u>\$ (14,338)</u>	<u>\$ None</u>	<u>\$ 296,924</u>

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 6 – LONG-TERM LIABILITIES:

In June of 2004, the Sanilac District Library received its delinquent tax payment from Sanilac County. However, the County mistakenly sent the Library a check representing the Sanilac Intermediate School District's 2003 delinquent property taxes, whereas, it should have sent a check representing Sanilac Township's delinquent property taxes. The mistake meant an overpayment to the District Library of \$21,493. Because the mistake was not detected until early 2005, most of the monies had already been spent. The District Library and Sanilac County have agreed on a repayment schedule. The District will pay back the overpayment in four equal payments over a four year period. \$5,373 will be paid back in 2005.

Long-term liabilities are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Due to Sanilac County	<u>\$ -</u>	<u>\$ 21,493</u>	<u>\$ -</u>	<u>\$ 21,493</u>	<u>\$ 5,373</u>

NOTE 7 – FUND BALANCE/NET ASSETS – RESTRICTED

After the building expansion and renovation project was completed in 2001, the Library Board approved a Long Term Maintenance Plan to set aside a total of \$35,000 by 2017 for the repair and/or replacement of the air conditioner, carpet, furnace, parking lot and roof. The library purchases a \$2,000 certificate of deposit annually. The balance of the combined certificates of deposit at December 31, 2004 was \$9,333.

NOTE 8 - RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Library continues to carry commercial insurance for risks of loss. The district does not provide employee health or life insurance coverage. The district does provide workers compensation insurance coverage.

REQUIRED SUPPLEMENTARY INFORMATION

**SANILAC DISTRICT LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts			Variance With Final Budget
	Original	Final	Actual	
REVENUES:				
Taxes				
County	\$ 25,000	\$ 28,400	\$ 28,284	\$ (116)
District	80,140	101,000	77,895	(23,105)
State aid	3,500	4,000	3,966	(34)
Penal fines	20,000	19,000	18,609	(391)
Charges for services	6,000	9,800	8,880	(920)
Interest	800	1,000	706	(294)
Donations	4,100	6,000	5,697	(303)
Miscellaneous	200	800	561	(239)
Grants	-	10,000	9,540	(460)
USF rebates	2,000	2,000	5,607	3,607
Insurance claim	-	1,500	1,497	(3)
TOTAL REVENUES	141,740	183,500	161,242	(22,258)
EXPENDITURES:				
Recreation and culture:				
Audio visual materials	5,000	6,000	5,875	125
Books	25,100	23,000	20,397	2,603
Building maintenance	1,500	2,000	1,921	79
Capital outlay	200	7,000	11,945	(4,945)
Communications	3,000	3,000	2,752	248
Continuing education	500	-	-	-
Contractual services	4,000	4,000	3,660	340
Dues	2,110	2,200	2,135	65
Insurance	3,300	4,000	3,528	472
Insurance - W/C	550	400	357	43
Long-term maintenance	2,000	2,000	-	2,000
Landscaping	500	200	134	66
Library supplies	1,750	2,500	2,259	241

(Continued)

**SANILAC DISTRICT LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
EXPENDITURES: (Continued)				
Magazines	\$ 1,500	\$ 2,000	\$ 1,777	\$ 223
Miscellaneous	200	300	290	10
Office supplies	2,000	2,000	1,797	203
Printing	-	200	173	27
Professional fees - audit	1,600	1,650	1,650	-
Programs	1,000	2,000	1,690	310
Technology	6,190	5,250	3,491	1,759
Transportation	500	300	234	66
Utilities	4,500	5,000	4,731	269
Wages and payroll taxes	83,000	85,000	82,628	2,372
				-
TOTAL EXPENDITURES	<u>150,000</u>	<u>160,000</u>	<u>153,424</u>	<u>6,576</u>
				-
Excess of Revenues Over (Under) Expenditures	<u>(8,260)</u>	<u>23,500</u>	<u>7,818</u>	<u>15,682</u>
Fund Balance, January 1	18,731	18,731	18,731	-
Fund Balance, December 31	<u><u>\$ 10,471</u></u>	<u><u>\$ 42,231</u></u>	<u><u>\$ 26,549</u></u>	<u><u>\$ 15,682</u></u>